

## ANALYSIS OF AMENDED BILL

Author: Runner & Wayne Analyst: Marion Mann DeJong Bill Number: AB 1779

Related Bills: \_\_\_\_\_ Telephone: (916) 845-6979 Amended Date: 05/14/98

Attorney: Doug Bramhall Sponsor: \_\_\_\_\_

**SUBJECT:** Joint Strike Fighter Program Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSES OF BILL AS INTRODUCED AND AMENDED STILL APPLY.

OTHER - See comments below.

### SUMMARY OF BILL

This bill would create a wage credit and property credit for the Joint Strike Fighter (JSF) program. These credits would apply to taxpayers under contract or subcontract to manufacture property for ultimate use in a JSF.

### SUMMARY OF AMENDMENT

The May 14, 1998, amendments would modify the definition of qualified taxpayer to require the JSF contract or subcontract to be "an initial" contract or subcontract and would prevent taxpayers from claiming both the Manufacturers' Investment Credit (MIC) and the property credit provided by this bill.

The May 14, 1998, amendments partially resolved the policy consideration raised in the department's analysis of the bill as introduced February 6, 1998. In addition, the amendments raise the implementation and technical considerations discussed below. Except for the Policy Consideration and Tax Revenue Estimate, the department's analyses of the bill as introduced February 6, 1998, and as amended March 18, 1998, still apply.

### POLICY CONSIDERATIONS

This bill would allow taxpayers located within an enterprise zone to claim the

DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

Board Position:

\_\_\_ S      \_\_\_ O  
\_\_\_ SA    \_\_\_ OUA  
\_\_\_ N      X NP  
\_\_\_ NA    \_\_\_ NAR  
\_\_\_\_\_ PENDING

Agency Secretary Position:

\_\_\_ S      \_\_\_ O  
\_\_\_ SA    \_\_\_ OUA  
\_\_\_ N      \_\_\_ NP  
\_\_\_ NA    \_\_\_ NAR  
DEFER TO \_\_\_\_\_

**GOVERNOR'S OFFICE USE**

Position Approved \_\_\_\_\_  
Position Disapproved \_\_\_\_\_  
Position Noted \_\_\_\_\_

Department/Legislative Director      Date  
**Johnnie Lou Rosas**      **5/26/98**

Agency Secretary      Date

By:      Date:

JSF credits and an enterprise zone credit (e.g. sales or use tax credits and hiring credit) that the taxpayer is allowed. The enterprise zone credit provisions do not restrict the taxpayer to one credit based upon a single investment or employee.

In addition, there is overlap between the wage credit and the qualified property credit in that capitalized labor costs that are treated as direct costs under Section 263A of the IRC would be eligible for both credits (plus any existing credits that do not contain provisions restricting the taxpayer to one credit based on a single investment or employee).

#### IMPLEMENTATION CONSIDERATIONS

This bill would require the taxpayer to be under "an initial" contract or subcontract to manufacture property for ultimate use in a JSF. It is unclear whether an "initial contract" could include modifications to that contract. This could lead to disputes between taxpayers and the department.

#### TECHNICAL CONSIDERATION

Amendment 1 would correct the code section reference to the MIC.

#### TAX REVENUE ESTIMATE

The May 14, 1998, amendments preventing taxpayers from claiming both the JSF property credit and the MIC reduced the estimated revenue losses by \$1 million for 2000-01, \$11 million for 2001-02 and \$12 million for 2002-03. Thus, revenue losses for this bill over the initial three-year period are projected to be as follows:

<b>Fiscal Year Cash Flow Impact</b>			
<b>\$ Millions</b>			
	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>
<b>Property</b>	<b>(1)</b>	<b>(7)</b>	<b>(8)</b>
<b>Wages</b>	<b>(4)</b>	<b>(54)</b>	<b>(56)</b>
<b>Total</b>	<b>(5)</b>	<b>(61)</b>	<b>(64)</b>

This analysis does not take into account any change in employment, personal income, or gross state product that may result from this bill becoming law.

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FRANCHISE TAX BOARD'S  
PROPOSED AMENDMENTS TO AB 1779  
As Amended May 14, 1998

AMENDMENT 1

On page 21, line 18, strikeout "23049" and insert:

23649